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Fuel Focus

Understanding Gasoline Markets in Canada and Economic Drivers Influencing Prices

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October 5, 2012

Canada

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National Overview

Canadian Pump Prices Increased 4 Cents per Litre from Last Week

Gasoline prices have been volatile in the past two weeks, falling 6 cents per litre for the week ending September 24, 2012, then rising 4 cents per litre for the week ending October 2, 2012, to $1.33 per litre. This represents a decrease of almost 2 cents per litre from the previous report two weeks ago.

Diesel fuel prices increased by less than 1 cent to $1.25 per litre, up 3 cents from the same period last year. Furnace oil prices declined by 1 cent per litre from last week, ending at $1.16 per litre, an increase of almost 5 cents from a year ago.

Despite the downward movement in North American crude oil prices, wholesale gasoline increased, pushing up retail gasoline pump prices.

Figure 1: Crude Oil and Regular Gasoline Price Comparison (National Average)

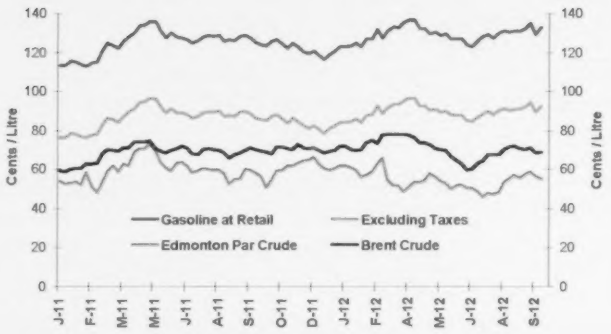
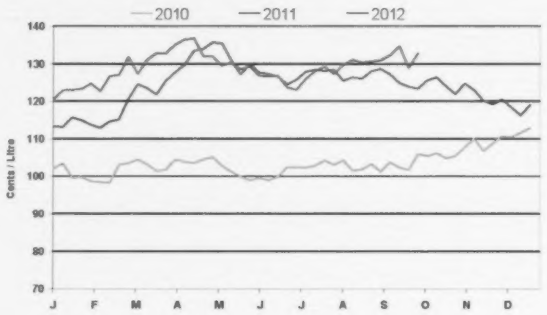


Figure 2: Weekly Regular Gasoline Prices



Recent Developments

- **Investors Want Environmental Results**: New research has revealed a relationship between financial performance and environmental performance; however, the link lies in the actual environmental outcomes of a company's performance, rather than a company's intended performance, as communicated by environmental targets and processes. A study examining the linkage between corporate environmental performance and corporate financial performance suggests that financial return is linked to outcome-based measurements, as opposed to process-based measurements. Simply put, companies that are able to curb their carbon emissions or reduce resource use are rewarded financially, while those that rely solely on carbon management processes and targets have significantly lower returns on equity. (Source: Delphi Group Newsletter, September 2012; and How Hot Is Your Bottom Line? Linking Carbon and Financial Performance; http://bas.sagepub.com/content/50/2/233.short)
- **Refined Petroleum Products Sales in Canada:** Motor gasoline sales increased 6% to 23 billion litres in the first six months of 2012 compared to the same period in 2011. Diesel fuel sales rose 1.5% to 15 billion litres, while light fuel oil (furnace oil) decreased 13% to 1.7 billion litres in the same time period. (Source: NRCan and Statistics Canada)
- **India Exploring Canadian Energy Assets**: India's Consul General in Toronto has indicated that both private and public sector Indian energy companies such as the Reliance Group and ONGC Videsh Ltd. were exploring potential purchases of Canadian oil sands assets of ConocoPhillips. (Source: UPI, September 28, 2012)

Changes in Fuel Prices

	Week of:	Change from:	
¢/L	2012-10-02	Previous Week	Last Year
Gasoline	132.8	+3.9	+9.4
Diesel	125.4	+0.3	+2.7
Furnace Oil	116.0	-1.4	+4.6

Source: NRCan

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Retail Gasoline Overview

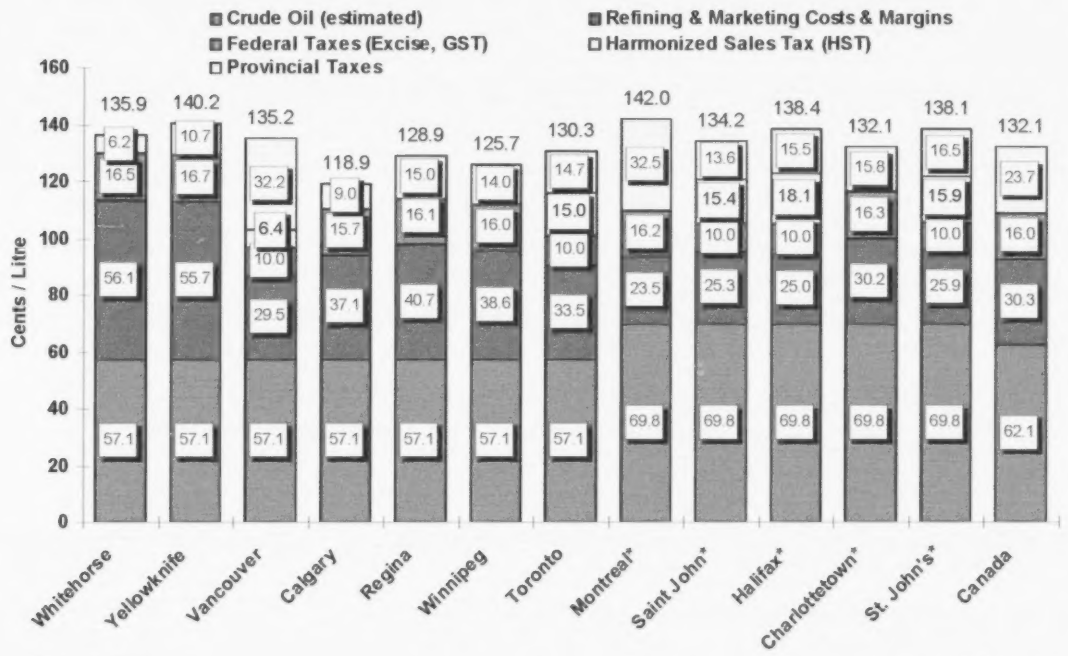
For the period ending October 2, 2012, the **four-week average** regular gasoline pump price in selected cities across Canada was $1.32 per litre, unchanged compared to the price in the previous report of September 21, 2012. Compared to the same period in 2011, the average Canadian pump price is 7 cents per litre higher.

The **four-week average** crude component was 62 cents per litre, a dip of 1 cent compared to two weeks ago.

The federal and provincial tax components averaged nearly 40 cents per litre, making up about 30% of the pump price. Compared to last year at this time, this represents an increase of 1 cent per litre.

At the national level, refining and marketing costs and margins rose by 1 cent per litre to 26 cents per litre, an increase of 5 cents per litre compared to a year ago.

Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (September 11 to October 2, 2012)



Source: NRCan

** Regulated Markets*

Political Framework of the Canadian Oil Market

Under the terms of Canada's Constitution, the provinces have ownership over the natural resources that lie within their provincial boundaries. In 1985, an agreement (the Western Accord) was reached between the federal government and the Provinces of Alberta, Saskatchewan and British Columbia to move away from a highly centralized and regulated oil and gas industry to a deregulated and open market. Canada's market-oriented energy policy has proven effective, stimulating investment, growth in resources and in assuring Canadian consumers of a large and diverse energy supply.

Our current polices consider that prices set in free and competitive markets provide the best signals to producers and consumers with respect to investment and consumption decisions. Rising prices send signals to producers to invest more in supply development and to consumers to use oil more efficiently and, where possible, to switch to other fuels. This helps ensure that sufficient supplies are available and prevents energy shortages. However, within this market orientation, government interventions are sometimes required to advance environmental or social objectives which are not achieved solely by market forces.

Wholesale Gasoline Prices

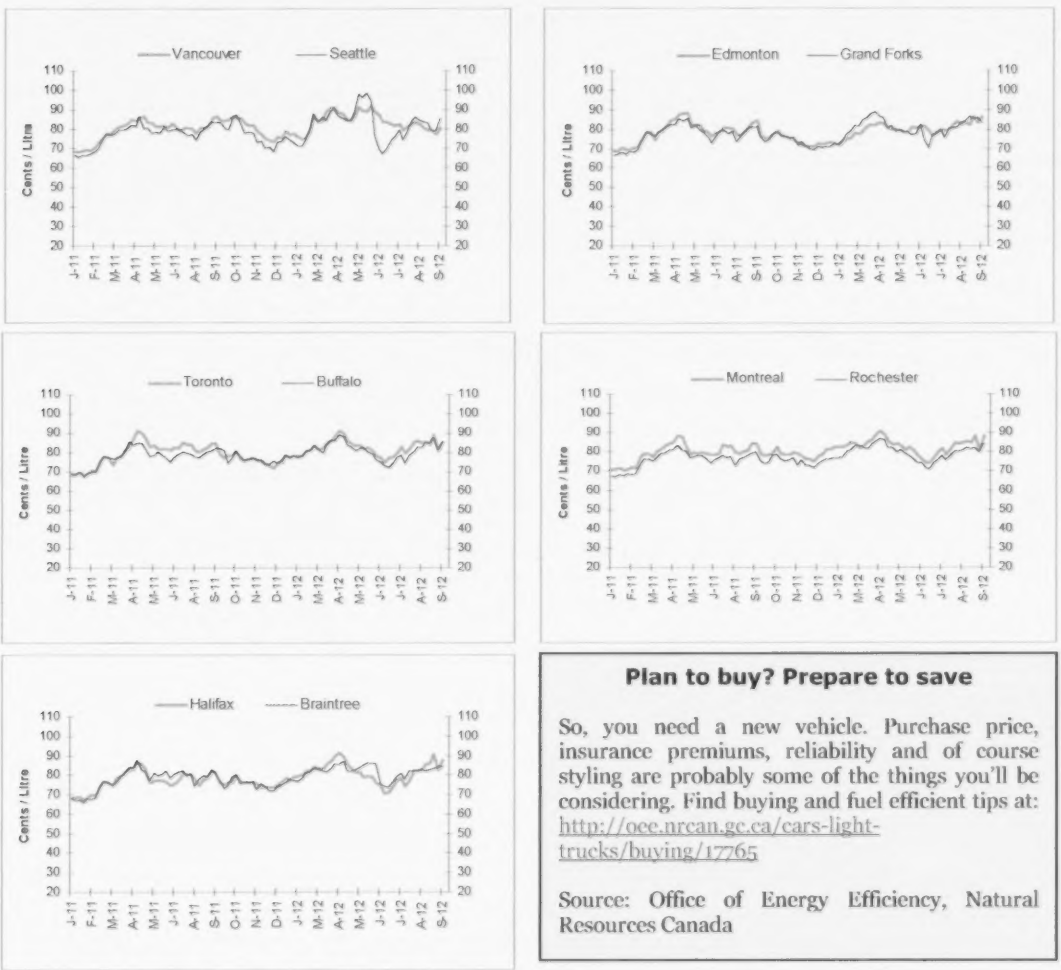
For the week **ending September 27, 2012**, wholesale gasoline prices increased in most of the selected Canadian and American centres compared to the previous week.

Overall, wholesale prices fluctuated between an increase of 8 cents per litre to a decrease of 2 cents per litre. Prices ended the period in the 81 to 88 cent-per-litre range.

Wholesale gasoline prices in the Eastern centres, for both Canada and the U.S. ranged between an increase of less than 1 cent per litre and almost 8 cents per litre, ending the period in the 84 to 88 cent-per-litre range.

In the Western centres, price changes ranged from a decrease of 2 cents per litre to an increase of more than 6 cents per litre, closing at 81 to 86 cents per litre.

Figure 4: Wholesale Gasoline Prices
Rack Terminal Prices for Selected Canadian and American Cities Ending September 27, 2012
(Can ¢/L)



Plan to buy? Prepare to save

So, you need a new vehicle. Purchase price, insurance premiums, reliability and of course styling are probably some of the things you'll be considering. Find buying and fuel efficient tips at: http://oee.nrcan.gc.ca/cars-light-trucks/buying/17765

Source: Office of Energy Efficiency, Natural Resources Canada

Sources: NRCan, Bloomberg Oil Buyers Guide

Gasoline Refining and Marketing Margins

Four-week rolling averages are used for gasoline refining and marketing margins.

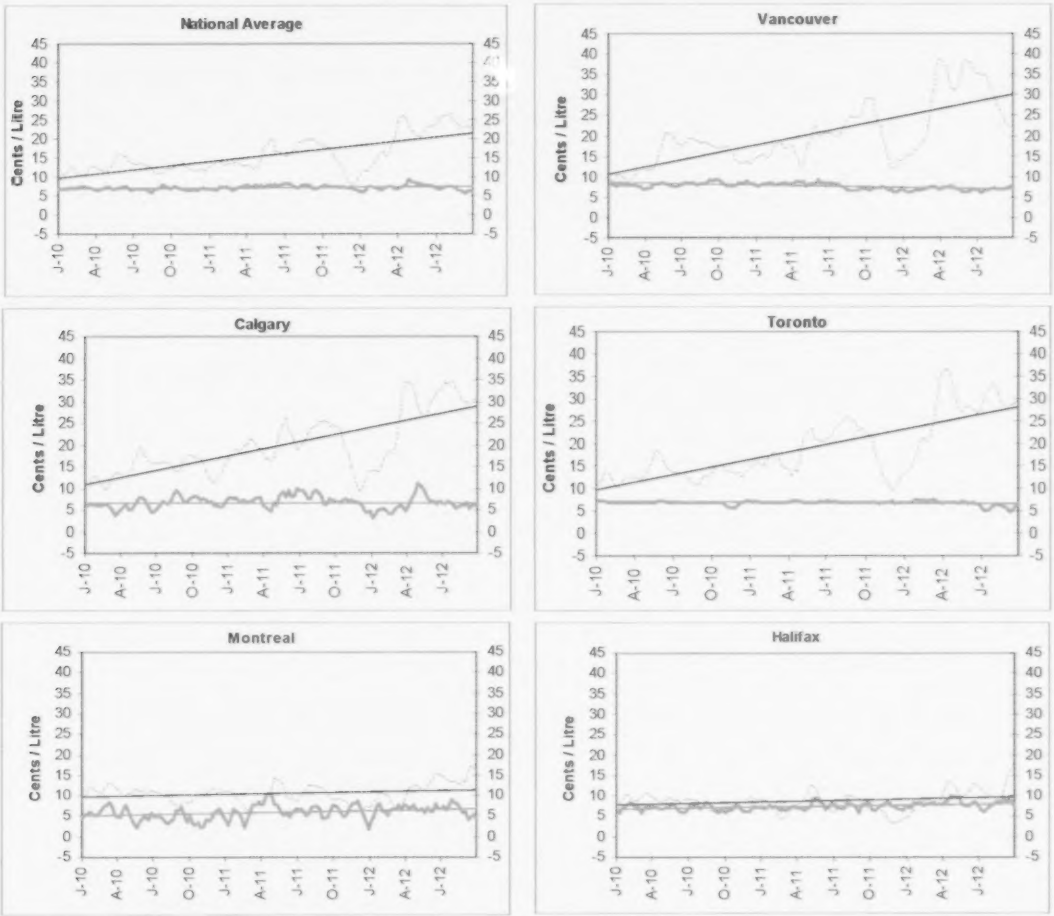
These refining margins refer to the difference between the cost of the crude oil and the wholesale price at which a refiner can sell gasoline. The margin includes the costs associated with refining the product as well as a profit for the refiner.

Refining margins generally rise when supply of gasoline is tight, for instance during temporary refinery outages, and decline when supplies are sufficient to meet the expected demand.

Nationally, the marketing margins decreased by 2 cents per litre compared to the same period last year. Marketing margins for the five centres registered between 4 and 7 cents per litre.

Although it represents a small portion of the total pump price, the marketing margin can vary significantly from city to city and region to region.

Figure 5: Gasoline Refining and Marketing Margins
Four-Week Rolling Average Ending October 2, 2012
------- Refining Margin ——— Marketing Margin



Source: NRCan

Crude Oil Overview

Global Crude Oil Prices Moderate on Economic News and US Inventories

For the week ending September 28, 2012, prices for the three marker crudes averaged between $552/m³ and $691/m³, (US$89 to US$112 per barrel). This is an increase for Brent of $5/m³ (US$0.03 per barrel) while WTI and Edmonton Par declined by $9 and $19/m³ (US$2 to US$4 per barrel), respectively, compared to the previous week.

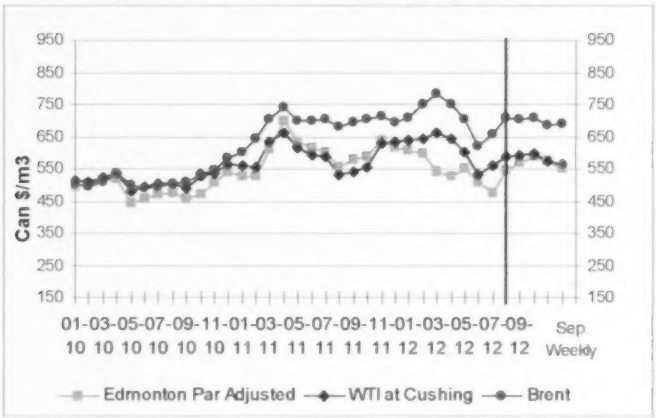
Brent oil prices rose moderately while other crude oil benchmarks declined on lackluster economic news in the US and in Europe. The price differential between Brent and WTI rose nearly US$2 per barrel to US$20 per barrel compared to the previous week.

Slow economic growth and high unemployment levels are expected to continue through next year while the euro zone debt restructuring plans fall short of raising energy market optimism.

US crude oil inventories hovered above their five year average levels helping to moderate the rise in crude oil prices, while US gasoline inventories move downward to their lowest level in the last 12-months.

Maintenance-related issues continue to limit crude oil output from the North Sea, while Middle East turmoil and Iran's nuclear program dispute, which prompted the European Union to ban imports of Iranian oil since July, continue to buoy prices.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2012-09-28		Change From:			
			Previous Week		Last Year	
	$Can/m³	$US/bbl	$Can/m³	$US/bbl	$Can/m³	$US/bbl
Edmonton Par	552.31	89.48	-18.80	-3.67	+11.03	+5.88
WTI	564.93	91.53	-9.39	-2.15	+37.50	+10.08
Brent	690.75	111.91	+4.77	+0.03	+2.12	+5.58

Source: NRCan

Increase in Global Refining Activity

September's Oil Market Report (OMR) highlights signs of rebalancing of oil markets following steep price gains since late June. OECD stocks contracted this summer, first posting slower builds than normal in July, then what looks provisionally like a counter-seasonal draw in August.

For both months, the tightening of OECD inventory was led by crude – stocks of which had been relatively high – whereas product stocks, which had been very tight, posted builds.

Production outages caused global oil supply to drop by 0.1 million barrels per day during the month and account for part of the crude draws. The other part of the story is a steep rebound in global refining activity, especially in the OECD. This refining response to price signals may set the stage for a rebalancing of inventories and much needed builds in product stocks ahead of winter.

Source: International Energy Agency, *Oil Market Report*, http://iea.org/newsroomandevents/news/2012/september/name,31263,en.html